## Solution 30.1

**PENGUIN LIMITED AND ITS SUBSIDIARY**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 30 JUNE 20X4**

| | | C |
|---|---|---|
| Gross profit | | 80 000 |
| Other income | | |
| Rent income | (22 000 – 15 000) | 7 000 |
| Operating expenses | | (38 300) |
| Property expenses | | 12 000 |
| Selling and administration expenses | | 25 000 |
| Depreciation | | 800 |
| Audit fees | | 500 |
| Profit before tax | | 48 700 |
| Income tax expense | (11 060 + 2 576) | (13 636) |
| Profit for the period | | 35 064 |
| *Other comprehensive income* | | 0 |
| Total comprehensive income | | 35 064 |

**PENGUIN LIMITED AND ITS SUBSIDIARY**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 30 JUNE 20X4**

| | Share capital C | Retained earnings C | Total C |
|---|---|---|---|
| Balance at 30 June 20X3 | 200 000 | ^40 000 | 240 000 |
| Total comprehensive income | - | 35 064 | 35 064 |
| Balance at 30 June 20X4 | 200 000 | 75 064 | 275 064 |

^ (40 000 + 10 000 – 10 000)

## Solution 30.1 continued …

**PENGUIN LIMITED AND ITS SUBSIDIARY**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AT 30 JUNE 20X4**

| | | C |
|---|---|---|
| ***ASSETS*** | | |
| **Non-current assets** | | |
| Property, at cost | (35 000 + 110 000) | 145 000 |
| Furniture | | 5 600 |
| - Cost | (6 000 + 2 000 - 400) | 7 600 |
| - Accumulated depreciation | (1 800 + 600 - 400) | (2 000) |
| Goodwill | | 10 000 |
| **Current assets** | | |
| Inventory | | 80 000 |
| Accounts receivable | | 33 600 |
| Cash and cash equivalents | | 40 300 |
| | | 314 500 |
| ***EQUITY AND LIABILITIES*** | | |
| **Capital and reserves** | | |
| Share capital | (200 000 + 100 000 – 100 000) | 200 000 |
| Retained earnings | (68 440 + 16 624 – 10 000)/ (from SOCIE) | 75 064 |
| **Current liabilities** | | |
| Accounts payable | (31 060 + 8 376) | 39 436 |
| | | 314 500 |

**Workings**

| **Analysis of equity** | |
|---|---|
| **At acquisition** | |
| Share capital | 100 000 |
| Retained earnings | 10 000 |
| | 110 000 |
| Fair value of consideration transferred | 120 000 |
| Goodwill | 10 000 |
| **Retained earnings at beginning of year** | |
| At 01/07/X3 | 10 000 |
| At acquisition | (10 000) |
| | - |

| | **Pro forma consolidating journal entries** | | |
|---|---|---|---|
| | | ***Debit*** | ***Credit*** |
| 1. | Share capital | 100 000 | |
| | Retained earnings | 10 000 | |
| | Goodwill | 10 000 | |
| | Investment in S Limited | | 120 000 |
| 2. | Accumulated depreciation | 400 | |
| | Furniture | | 400 |
| 3. | Rent received | 15 000 | |
| | Rent paid | | 15 000 |
| 4. | Interest received | 500 | |
| | Interest paid | | 500 |
| 5. | Loan from P Limited | 10 000 | |

| | |
|---|---|
| Loan to S Limited | 10 000 |

## Solution 30.1 continued …

| | Penguin Ltd | Sardine Ltd | | Consolidated adjustments Dr | | Cr | Consolidated balances |
|---|---|---|---|---|---|---|---|
| Share capital | 200 000 | 100 000 | 1) | 100 000 | | | 200 000 |
| Retained earnings 1/7/20X3 | 40 000 | 10 000 | 1) | 10 000 | | | 40 000 |
| Gross profit | 80 000 | - | | | | | 80 000 |
| Rent received | - | 22 000 | 3) | 15 000 | | | 7 000 |
| Interest received | 500 | - | 4) | 500 | | | - |
| Loan form Penguin Ltd | - | 10 000 | 5) | 10 000 | | | - |
| Accounts payable | 31 060 | 8 376 | | | | | 39 436 |
| Accumulated depreciation | 1 800 | 600 | 2) | 400 | | | 2 000 |
| | 353 360 | 148 400 | | | | | 368 436 |
| Land and buildings | 35 000 | 110 000 | 1) | 10 000 | | | 155 000 |
| Furniture | 6 000 | 2 000 | | | 2) | 400 | 7 600 |
| Shares in Sardine Ltd | 120 000 | - | | | 1) | 120 000 | - |
| Loan to Sardine Ltd | 10 000 | - | | | 5) | 10 000 | - |
| Inventories | 80 000 | - | | | | | 80 000 |
| Accounts receivable | 30 000 | 3 600 | | | | | 33 600 |
| Cash | 20 300 | 20 000 | | | | | 40 300 |
| Property expenses | - | 12 000 | | | | | 12 000 |
| Selling & admin expenses | 25 000 | - | | | | | 25 000 |
| Rent paid | 15 000 | - | | | 3) | 15 000 | - |
| Depreciation | 600 | 200 | | | | | 800 |
| Audit fees | 400 | 100 | | | | | 500 |
| Interest paid | - | 500 | | | 4) | 500 | - |
| Tax expense | 11 060 | 2 576 | | | | | 13 636 |
| | 353 360 | 148 400 | | | | | 368 436 |

## Solution 30.2

**PARDON LIMITED AND SORRY LIMITED GROUP**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31 DECEMBER 20X5**

| | | C |
|---|---|---|
| Revenue | | 119 000 |
| Cost of sales | (34 000 + 35 000) | 69 000 |
| Gross profit | | 50 000 |
| Operating expenses | | (20 000) |
| Profit before tax | | 30 000 |
| Income tax expense | | (5 000) |
| Profit for the period | | 25 000 |
| *Other comprehensive income* | | 0 |
| Total comprehensive income | | 25 000 |

**PARDON LIMITED AND SORRY LIMITED GROUP**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31 DECEMBER 20X5**

| | **Share capital** | **Retained earnings** | ***Total*** |
|---|---|---|---|
| | **C** | **C** | **C** |
| Balance at 31 December 20X4 | 200 000 | ^101 000 | 301 000 |
| Total comprehensive income | | 25 000 | 25 000 |
| Dividends | | *(10 000) | (10 000) |
| Balance at 31 December 20X5 | 200 000 | 116 000 | 316 000 |

^[71 000 + (45 000 – 15 000) ]
*[10 000 + (5 000 – 5 000)]

**PARDON LIMITED AND SORRY LIMITED GROUP**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AT 31 DECEMBER 20X5**

| | | C |
|---|---|---|
| ***ASSETS*** | | |
| **Non-current assets** | | |
| Goodwill | | 35 000 |
| Land and buildings, at carrying amount | | 105 000 |
| Plant and equipment, at carrying amount | | 85 000 |
| **Current assets** | | |
| Inventories | | 63 000 |
| Accounts receivable | | 47 000 |
| Cash and cash equivalents | | 40 000 |
| | | 375 000 |
| ***EQUITY AND LIABILITIES*** | | |
| **Capital and reserves** | | |
| Share capital | [200 000 + (75 000 – 75 000)] | 200 000 |
| Retained earnings | | 116 000 |
| **Current liabilities** | | |
| Accounts payable | | 59 000 |
| | | 375 000 |

## Solution 30.2 continued …

### Workings

| | Pardon Limited | Sorry Limited | | Consolidated adjustments Dr | | Consolidated adjustments Cr | Conso-lidated balances |
|---|---|---|---|---|---|---|---|
| Share capital | 200 000 | 75 000 | 1) | 75 000 | | | 200 000 |
| Retained earnings 1/1/20X5 | 71 000 | 45 000 | 1) | 15 000 | | | 101 000 |
| Sales | 64 000 | 55 000 | | | | | 119 000 |
| Dividend income | 5 000 | - | 2) | 5 000 | | | - |
| Accounts payable | 39 000 | 20 000 | | | | | 59 000 |
| | 379 000 | 195 000 | | | | | 479 000 |
| Cash | 25 000 | 15 000 | | | | | 40 000 |
| Accounts receivable | 27 000 | 20 000 | | | | | 47 000 |
| Inventories | 38 000 | 25 000 | | | | | 63 000 |
| Investment | 125 000 | - | | | 1) | 125 000 | - |
| Plant and equipment – net | 45 000 | 40 000 | | | | | 85 000 |
| Land and buildings - net | 60 000 | 45 000 | | | | | 105 000 |
| Dividends | 10 000 | 5 000 | | | 2) | 5 000 | 10 000 |
| COS | 34 000 | 35 000 | | | | | 69 000 |
| Operating expenses | 12 000 | 8 000 | | | | | 20 000 |
| Taxation | 3 000 | 2 000 | | | | | 5 000 |
| Goodwill | | | 1) | 35 000 | | | 35 000 |
| | 379 000 | 195 000 | | | | | 479 000 |

| **Analysis of equity** | |
|---|---|
| **At acquisition** | |
| Share capital | 75 000 |
| Retained earnings 1/1/20X1 | 15 000 |
| | 90 000 |
| Fair value of consideration transferred | 125 000 |
| Goodwill | 35 000 |
| | |
| **Retained earnings at beginning of year** | |
| At 01/01/X5 | 45 000 |
| At acquisition | (15 000) |
| | 30 000 |

| **Pro forma consolidation journal entries** | | | |
|---|---|---|---|
| | | **Dr** | **Cr** |
| 1) | Share capital | 75 000 | |
| | Retained earnings | 15 000 | |
| | Goodwill | 35 000 | |
| | Investment in Sorry Ltd | | 125 000 |
| 2) | Dividend income | 5 000 | |
| | Dividends paid | | 5 000 |

## Solution 30.3

**a)**

**PLUM LIMITED AND ITS SUBSIDIARY**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 28 FEBRUARY 20X7**

| | | C |
|---|---|---|
| Revenue | | 840 000 |
| Cost of sales | [(45 + 270) + (98 + 561) – (55 + 285)] | 634 000 |
| Gross profit | | 206 000 |
| Operating expenses | | |
| Depreciation | | 1 000 |
| Rent | | 19 000 |
| Advertising | | 6 000 |
| Wages and salaries | | 27 000 |
| Profit before tax | | 153 000 |
| Income tax expense | | 61 200 |
| Profit for the period | | 91 800 |
| *Other comprehensive income* | | 0 |
| Total comprehensive income | | 91 800 |

**PLUM LIMITED AND ITS SUBSIDIARY**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 28 FEBRUARY 20X7**

| | Share capital | Retained earnings | Total |
|---|---|---|---|
| | C | C | C |
| Balance at 28 February 20X6 | 155 000 | ^50 000 | 205 000 |
| Total comprehensive income | | 91 800 | 91 800 |
| Balance at 28 February 20X7 | 155 000 | 141 800 | 296 800 |

^ [41 000 + (19 000 – 10 000)]

**b)**

**PLUM LIMITED AND ITS SUBSIDIARY**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 28 FEBRUARY 20X7**

| | | C |
|---|---|---|
| Plant at cost | (10 000 – 3 000) | 7 000 |
| Accumulated depreciation | (4 000 – 3 000 + 1 000) | (2 000) |
| | | 5 000 |

## Solution 30.3 continued …

### Workings

| Analysis of equity of Seed (Pvt) Limited | |
|---|---|
| **At acquisition** | |
| Share capital | 10 000 |
| Retained earnings | 10 000 |
| | 20 000 |
| Fair value of consideration transferred | 25 000 |
| Goodwill | 5 000 |
| | |
| **Retained earnings at beginning of year** | |
| At 01/03/X6 | 19 000 |
| At acquisition | (10 000) |
| | 9 000 |

| Adjusting entries in the accounting records of Seed (Pvt) Ltd | | *Dr* | *Cr* |
|---|---|---|---|
| | Depreciation expense | 1 000 | |
| | Accumulated depreciation | | 1 000 |
| ^ | Advertising expense | 3 000 | |
| | Current a/c – Plum Limited | | 3 000 |
| ^ | Administration fee | 6 000 | |
| | Current a/c – Plum Limited | | 6 000 |
| | Taxation expense | 46 800 | |
| | Current tax payable | | 46 800 |
| | Dividend | 10 000 | |
| | Shareholders for dividend | | 10 000 |

| Adjusting entries in the accounting records of Plum Limited | | | |
|---|---|---|---|
| | Taxation expense | 14 400 | |
| | Current tax payable | | 14 400 |
| | Dividend receivable | 10 000 | |
| | Dividend income | | 10 000 |

^

**Ledger of Plum Limited**

| Current a/c Seed | | | |
|---|---|---|---|
| **Description** | **C** | **Description** | **C** |
| Balance | 21 000 | | |
| | | Balance | 21 000 |
| | 21 000 | | 21 000 |
| Balance | 21 000 | | |

**Ledger of Seed Limited**

| Current a/c Plum | | | |
|---|---|---|---|
| **Description** | **C** | **Description** | **C** |
| | | Balance | 12 000 |
| | | Advertising expense | 3 000 |
| Balance | 21 000 | Administration fee | 6 000 |
| | 21 000 | | 21 000 |
| | | Balance | 21 000 |

## Solution 30.3 continued …

**Pro forma consolidating journal entries**

| | | *Debit* | *Credit* |
|---|---|---|---|
| 1. | Share capital | 10 000 | |
| | Retained earnings | 10 000 | |
| | Goodwill | 5 000 | |
| | Investment in subsidiary | | 25 000 |
| 2. | Accumulated depreciation | 3 000 | |
| | Plant | | 3 000 |
| | (4 000 – 1 000) | | |
| 3. | Loan account - Plum Ltd | 120 000 | |
| | Loan account - Seed Ltd | | 120 000 |
| 4. | Current account - Plum Ltd | 21 000 | |
| | Current account - Seed Ltd | | 21 000 |
| 5. | Interest received | 12 000 | |
| | Interest paid | | 12 000 |
| 6. | Administration fee income | 6 000 | |
| | Administration fee expense | | 6 000 |
| 7. | Dividend income | 10 000 | |
| | Dividend paid | | 10 000 |
| 8. | Shareholders for dividend | 10 000 | |
| | Dividend receivable | | 10 000 |

## Solution 30.4

**PINK LIMITED AND SCARLET LIMITED GROUP**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31 DECEMBER 20X4**

| | | C |
|---|---|---|
| Gross profit | | 232 000 |
| Operating expenses | | |
| Depreciation – plant | (12 000 + 5 000 + 1 000) | (18 000) |
| Audit fees | | (4 000) |
| Profit before tax | | 210 000 |
| Income tax expense | (30 000 + 11 000 – 350) | (40 650) |
| Profit for the period | | 169 350 |
| *Other comprehensive income* | | 0 |
| Total comprehensive income | | 169 350 |

**PINK LIMITED AND SCARLET LIMITED GROUP**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31 DECEMBER 20X4**

| | Share capital | Retained earnings | *Total* |
|---|---|---|---|
| | C | C | C |
| Balance at 1 January 20X4 | 400 000 | ^185 000 | 585 000 |
| Total comprehensive income | | 169 350 | 169 000 |
| Dividends | | *(65 000) | (65 000) |
| Balance at 31 December 20X4 | 400 000 | 289 350 | 689 000 |

^ (185 000 + 50 000 – 50 000)
* (65 000 + 30 000 – 30 000)

## Solution 30.4 continued …

**PINK LIMITED AND SCARLET LIMITED GROUP**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AT 31 DECEMBER 20X4**

| | | C |
|---|---|---|
| ***ASSETS*** | | |
| **Non-current assets** | | |
| Goodwill, at cost | | 6 100 |
| Land, at cost | | 260 000 |
| Plant | | 114 000 |
| - Cost | (120 000 + 50 000 – 20 000 + 6 000) | 156 000 |
| - Accumulated depreciation | (36 000 + 25 000 – 20 000 + 1 000) | (42 000) |
| **Current assets** | | |
| Inventories | | 170 000 |
| Accounts receivable | | 110 000 |
| Cash and cash equivalents | | 98 000 |
| | | 758 100 |
| ***EQUITY AND LIABILITIES*** | | |
| **Capital and reserves** | | |
| Share capital | | 400 000 |
| Retained earnings | | 289 350 |
| **Non-current liabilities** | | |
| Deferred tax | (2 100 – 350) | 1 750 |
| **Current liabilities** | | |
| Accounts payable | | 67 000 |
| | | 758 100 |

## Solution 30.4 continued …

### Workings

| Analysis of equity | | |
|---|---|---|
| **At acquisition** | | |
| Share capital | | 60 000 |
| Retained earnings | | 50 000 |
| | | 110 000 |
| Plant (36 000 – 30 000) | | 6 000 |
| Deferred tax | (6 000 X 0.35) | (2 100) |
| | | 113 900 |
| Fair value of consideration transferred | | 120 000 |
| Goodwill | | 6 100 |

| Plant | Years | Scarlet Ltd | Consolidation adjustment | Group |
|---|---|---|---|---|
| Cost | 10 | 50 000 | | |
| Accumulated depreciation 1/1/X4 | (4) | (20 000) | | |
| Carrying amount 1/1/X4 | 6 | 30 000 | 6 000 | 36 000 |
| Depreciation 31/12/X4 | | (5 000) | (1 000) | (6 000) |
| | | 25 000 | 5 000 | 30 000 |

| | | Group CA | TB | TD | DT | |
|---|---|---|---|---|---|---|
| 1/1/X4 | Carrying amount | 30 000 | | | | |
| | Group adjustment | 6 000 | | | | |
| | | 36 000 | 30 000 | 6 000 | 2 100 | Cr |
| 31/12/X4 | Depreciation / Tax allowance | (6 000) | (5 000) | (1 000) | 350 | Dr |
| | | 30 000 | 25 000 | 5 000 | 1 750 | Cr |

## Solution 30.4 continued …

| | Pro forma consolidation journal entries | Debit | Credit |
|---|---|---|---|
| (1) | Share capital | 60 000 | |
| | Retained earnings | 50 000 | |
| | Plant | 6 000 | |
| | Goodwill | 6 100 | |
| | Deferred tax | | 2 100 |
| | Investment in Scarlet Limited | | 120 000 |
| (2) | Dividend income | 30 000 | |
| | Dividends paid | | 30 000 |
| (3) | Interest income | 3 000 | |
| | Interest expense | | 3 000 |
| (4) | Loan from Pink Limited | 60 000 | |
| | Loan to Scarlet Limited | | 60 000 |
| (5) | Accumulated depreciation - plant | 20 000 | |
| | Plant | | 20 000 |
| (6) | Depreciation | 1 000 | |
| | Accumulated depreciation - plant | | 1 000 |
| (7) | Deferred tax | 350 | |
| | Taxation | | 350 |

| | Pink Limited | Scarlet Limited | Consolidated adjustments | | | | Conso-lidated balances |
|---|---|---|---|---|---|---|---|
| | | | | Dr | | Cr | |
| Taxation | 30 000 | 11 000 | | | 7) | 350 | 40 650 |
| Depreciation | 12 000 | 5 000 | 6) | 1 000 | | | 18 000 |
| Interest | | 3 000 | | | 3) | 3 000 | - |
| Audit fees | 3 000 | 1 000 | | | | | 4 000 |
| Dividends | 65 000 | 30 000 | | | 2) | 30 000 | 65 000 |
| Land and buildings | 200 000 | 60 000 | | | | | 260 000 |
| Plant | 120 000 | 50 000 | 1) | 6 000 | 5) | 20 000 | 156 000 |
| Investment in Scarlet Limited | 120 000 | | | | 1) | 120 000 | |
| Loan to Scarlet Limited | 60 000 | | | | 4) | 60 000 | - |
| Inventories | 140 000 | 30 000 | | | | | 170 000 |
| Accounts receivable | 80 000 | 30 000 | | | | | 110 000 |
| Cash | 70 000 | 28 000 | | | | | 68 000 |
| Goodwill | | | 1) | 6 100 | | | 6 100 |
| | 900 000 | 248 000 | | | | | 927 750 |
| Trading profit | 192 000 | 40 000 | | | | | 232 000 |
| Dividend income | 30 000 | | 2) | 30 000 | | | |
| Interest | 3 000 | | 3) | 3 000 | | | - |
| Retained earnings (1 January 20X4) | 215 000 | 50 000 | 1) | 50 000 | | | 185 000 |
| Share capital | 400 000 | 60 000 | 1) | 60 000 | | | 400 000 |
| Loan from Pink Limited | | 60 000 | 4) | 60 000 | | | - |
| Accounts payable | 54 000 | 13 000 | | | | | 67 000 |
| Accumulated depreciation | 36 000 | 25 000 | 5) | 20 000 | 6) | 1 000 | 42 000 |
| Deferred tax | | | 7) | 350 | 1) | 2 100 | 1 750 |
| | 900 000 | 248 000 | | | | | 927 750 |

## Solution 30.5

**PLANE LIMITED AND SHIP LIMITED GROUP**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 30 JUNE 20X9**

| | | C |
|---|---|---|
| Profit before tax | (44 750 + 25 000 – 1 000 – 10 000) | 58 750 |
| Income tax expense | (27 400 – 400) | (27 000) |
| Profit for the period | | 31 750 |
| *Other comprehensive income* | | 0 |
| Total comprehensive income | | 31 750 |

**PLANE LIMITED AND SHIP LIMITED GROUP**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 30 JUNE 20X9**

| | Share capital C | Retained earnings C | Total C |
|---|---|---|---|
| Balance at 30 June 20X8 | 225 000 | *39 400 | 264 400 |
| Total comprehensive income | - | 31 750 | 31 750 |
| Dividends - paid | - | (11 000) | (11 000) |
| Balance at 30 June 20X9 | 225 000 | 60 150 | 285 150 |

* [37 000 + (28 000 – 25 000 – 1000 + 400)]

**PLANE LIMITED AND SHIP LIMITED GROUP**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AT 30 JUNE 20X9**

| | | C |
|---|---|---|
| ***ASSETS*** | | |
| **Non-current assets** | | |
| Goodwill, at cost | | 9 200 |
| Land and buildings, at cost | | 125 800 |
| Plant and machinery | | 142 500 |
| - Cost | (135 000 +70 000 – 14 000 + 8 000) / (135 000 + 64 000) | 199 000 |
| - Accumulated depreciation | (40 500 + 28 000 – 14 000 + 2 000) / (40 500 + 16 000) | (56 500) |
| **Current assets** | | |
| Inventories | | 99 800 |
| Accounts receivable | | 36 300 |
| Cash and cash equivalents | | 2 000 |
| | | 415 600 |
| ***EQUITY AND LIABILITIES*** | | |
| **Capital and reserves** | | |
| Share capital | | 225 000 |
| Retained earnings | | 60 150 |
| **Non-current liabilities** | | |
| 10% Debentures | | 15 000 |
| Deferred tax | (3 200 – 800) | 2 400 |
| **Current liabilities** | | |
| Accounts payable | | 89 050 |
| Current tax payable | | 24 000 |
| | | 415 600 |

## Solution 30.5 continued …

### Workings

| Analysis of equity of Ship Limited | |
|---|---|
| **At acquisition** | |
| Share capital | 50 000 |
| Retained earnings | 25 000 |
| Plant and machinery | 8 000 |
| Deferred tax | (3 200) |
| | 79 800 |
| Fair value of consideration transferred | 89 000 |
| Goodwill | 9 200 |
| | |
| **Retained earnings at beginning of year** | |
| At 30/6/20X8 | 28 000 |
| On acquisition | (25 000) |
| | 3 000 |
| Additional depreciation | (1 000) |
| Deferred tax | 400 |
| | 2 400 |
| | |
| **Current year** | |
| Profit for the period | 15 500 |
| Additional depreciation | (1 000) |
| Deferred tax | 400 |
| | 14 900 |
| | |
| Dividends | (10 000) |

| Plant | Years | Ship Limited | Consolidation adjustment | Group |
|---|---|---|---|---|
| Cost | 10 | 70 000 | | |
| Accumulated depreciation 1/7/20X7 | *(2) | (14 000) | | |
| Balance 1/7/20X7 | 8 | 56 000 | 8 000 | 64 000 |
| Depreciation 30/6/20X8 | | (7 000) | (1 000) | (8 000) |
| Depreciation 30/6/20X9 | | (7 000) | (1 000) | (8 000) |
| | | 42 000 | 6 000 | 48 000 |

*C28 000 accumulated depreciation at 30/06/X9
. .Plant 2 years old at 01/07/X7

## Solution 30.5 continued …

**Pro forma consolidation journal entries**

| | | *Debit* | *Credit* |
|---|---|---|---|
| 1) | Share capital | 50 000 | |
| | Retained earnings | 25 000 | |
| | Plant and machinery | 8 000 | |
| | Goodwill | 9 200 | |
| | Deferred tax | | 3 200 |
| | Investment in Ship Limited | | 89 000 |
| | Accumulated depreciation - P&M | 14 000 | |
| | Plant and machinery | | 14 000 |
| 2) | Retained earnings | 1 000 | |
| | Accumulated depreciation - P&M | | 1 000 |
| | Deferred tax | 400 | |
| | Retained earnings | | 400 |
| 3) | Profit before tax | 1 000 | |
| | Accumulated depreciation – P&M | | 1 000 |
| | Deferred tax | 400 | |
| | Taxation | | 400 |
| | Profit before tax | 10 000 | |
| | Dividends paid | | 10 000 |
| | 10% debentures | 10 000 | |
| | Debentures in Ship Limited | | 10 000 |
| | Interest income | 1 000 | |
| | Interest expense | | 1 000 |

## Solution 30.5 continued …

| | Plane Limited | Ship Limited | | Consolidation adjustments Dr | | Consolidation adjustments Cr | Conso-lidated balances |
|---|---|---|---|---|---|---|---|
| Share capital | 225 000 | 50 000 | 1)* | 50 000 | | | 225 000 |
| Retained earnings 1/7/20X8 | 37 000 | 28 000 | 1)* | 25 000 | 2) | 400 | |
| | | | 2)* | 1 000 | | | 39 400 |
| Net profit before tax | 44 750 | 25 000 | 3) | 1 000 | | | |
| | | | 3) | 10 000 | | | 58 750 |
| 10% debentures | - | 25 000 | 3) | 10 000 | | | 15 000 |
| Accumulated depreciation - P&M | 40 500 | 28 000 | 1) | 14 000 | 2) | 1 000 | |
| | | | | | 3) | 1 000 | 56 500 |
| Accounts payable | 61 350 | 27 700 | | | | | 89 050 |
| Current tax payable | 14 500 | 9 500 | | | | | 24 000 |
| | | | 2) | 400 | 1) | 3 200 | 2 400 |
| Deferred tax | | | 3) | 400 | | | |
| | 423 100 | 193 200 | | | | | 510 100 |
| Land and buildings | 83 000 | 42 800 | | | | | 125 800 |
| Plant and machinery | 135 000 | 70 000 | 1) | 8 000 | 1) | 14 000 | 199 000 |
| Shares in Ship Limited | 89 000 | - | | | 1) | 89 000 | - |
| Debentures in Ship Limited | 10 000 | - | | | 3) | 10 000 | - |
| Inventories | 54 800 | 45 000 | | | | | 99 800 |
| Accounts receivable | 21 300 | 15 000 | | | | | 36 300 |
| Cash | 1 100 | 900 | | | | | 2 000 |
| Taxation | 17 900 | 9 500 | | | 3) | 400 | 27 000 |
| Dividends paid | 11 000 | 10 000 | | | 3) | 10 000 | 11 000 |
| Goodwill | | | 1) | 9 200 | | | 9 200 |
| | 423 100 | 193 200 | | | | | 510 100 |

**Entry reference no. of consolidation entries on previous page.*

## Solution 30.6

**PRODUCTION LIMITED AND STRIKE LIMITED GROUP**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AT 30 JUNE 20X9**

| | | C |
|---|---|---|
| ***ASSETS*** | | |
| **Non-current** | | |
| Land at cost | (500 000 + 20 000 – 20 000) | 500 000 |
| Plant and equipment at carrying amount | | 2 500 000 |
| Goodwill | | 5 600 |
| **Current assets** | | |
| Inventories | | 250 000 |
| Accounts receivable | | 400 000 |
| Cash and cash equivalents | | 155 000 |
| | | 3 810 600 |
| ***EQUITY AND LIABILITIES*** | | |
| **Capital and reserves** | | |
| Share capital | | 2 000 000 |
| Non-distributable reserves | (59 500 – 14 400) | 45 100 |
| Retained earnings | (P: 450 000 + S: 140 500 – 30 000 – 20 000 + 5 600 + 14 400) | 560 500 |
| **Non-current liabilities** | | |
| Long term liabilities | (600 000 + 24 500 – 100 000) | 745 000 |
| **Current liabilities** | | |
| Accounts payable | | 460 000 |
| | | 3 810 600 |

## Workings

| **Analysis of equity of Strike Ltd** | | |
|---|---|---|
| **At acquisition** | | |
| Share capital | | 50 000 |
| Retained earnings | | 30 000 |
| Increase in land | (125 000 – 105 000) | 20 000 |
| Deferred tax | (20 000 X 0.28) | (5 600) |
| | | 94 400 |
| Fair value of consideration transferred | | 100 000 |
| Goodwill | | 5 600 |

## Solution 30.6 continued …

**Pro forma consolidation journal entries**

| | | *Debit* | *Credit* |
|---|---|---|---|
| 1. | Share capital | 50 000 | |
| | Retained earnings | 30 000 | |
| | Land | 20 000 | |
| | Deferred tax | | 5 600 |
| | Goodwill | 5 600 | |
| | Investment in subsidiary | | 100 000 |
| 2. | Long-term loan | 100 000 | |
| | Loan to subsidiary | | 100 000 |
| 3. | Profit on sale of land | 20 000 | |
| | Land | | 20 000 |
| 4 | Deferred tax | 5 600 | |
| | Tax expense | | 5 600 |
| 5. | NDR | 14 400 | |
| | Retained earnings | | 14 400 |

| | Production | Strike | Consolidation adjustments Dr | | Consolidation adjustments Cr | | Conso-lidated balances |
|---|---|---|---|---|---|---|---|
| Land | | 500 000 | 20 000 | 1) | 20 000 | 3) | 500 000 |
| Plant & equipment. | 2 500 00( | | | | | | 2 500 00( |
| Investment in subsidiary | 100 000 | | | | 100 000 | 1) | |
| Loan to subsidiary | 100 000 | | | | 100 000 | 2) | |
| Goodwill | | | 5 60( | 1) | | | 5 60( |
| Inventories | 250 000 | | | | | | 250 000 |
| Accounts receivable | 400 000 | | | | | | 400 000 |
| Cash | 150 000 | 5 00( | | | | | 155 000 |
| | 3 500 00( | 505 000 | | | | | 3 810 60( |
| Share capital | 2 000 00( | 50 000 | 50 000 | 1) | | | 2 000 00( |
| NDR | | 59 500 | 14 400 | 5) | | | 45 100 |
| Retained earnings | 450 000 | 140 500 | 30 000 | 1) | 5 60( | 4) | 560 500 |
| | | | 20 000 | 3) | | | |
| Long term loan | 600 000 | 245 000 | 100 000 | 2) | | | 745 000 |
| Accounts payable | 450 000 | 10 000 | | | | | 460 000 |
| Deferred tax | | | 5 60( | 4) | 5 60( | 1) | 5 60( |
| | 3 500 00( | 505 000 | | | | | 3 810 60( |

**Sale of land and buildings during the year**

| | Subsidiary | Group |
|---|---|---|
| Selling price | 175 | 175 |
| Cost | 105 | 125 |
| | 70 | 50 |

## Solution 30.7

### a) Journal entries in accounting records of Peanut Limited

**GENERAL JOURNAL OF PEANUT LIMITED**

| | | *Debit* | *Credit* |
|---|---|---|---|
| 01/07/20X5 | Investment in Salt Limited | 1 763 000 | |
| | Bank | | 1 763 000 |
| 15/06/20X7 | Bank | 10 000 | |
| | Dividend income | | 10 000 |

b) **Proforma consolidation journal entries:**

| | | *Debit* | *Credit* |
|---|---|---|---|
| | *At acquisition* | | |
| 1 | Share capital (500 000+1 000 000) | 1 500 000 | |
| | Retained earnings (1 650 000+550 000) | 2 200 000 | |
| | Non-distributable reserve | 550 000 | |
| | Plant | 300 000 | |
| | Deferred tax | | 87 000 |
| | Goodwill | 95 000 | |
| | Investment in Salt Limited | | 1 763 000 |
| | Investment in Smooth Limited | | 2 795 000 |
| | *Elimination of share capital and reserves at acquisition* | | |
| 2. | Accumulated depreciation - Building | 315 000 | |
| | Buildings | | 315 000 |
| | *Reversal of accumulated depreciation at acquisition* | | |
| | *Beginning of year* | | |
| 3 | Retained earnings | 150 000 | |
| | Accumulated depreciation - Plant | | 150 000 |
| | *Additional depreciation to boy due to revaluation of Salt's plant at acquisition (75 000 X 2)* | | |
| 4 | Deferred tax | 43 500 | |
| | Retained earnings | | 43 500 |
| | *Deferred tax to beginning of year on additional depreciation due to revaluation (21 750 X 2)* | | |

## Solution 30.7 continued …

| | | Debit | Credit |
|---|---|---|---|
| | *Current year* | | |
| 5 | Profit before tax | 75 000 | |
| | Accumulated depreciation - Plant | | 75 000 |
| | *Additional depreciation in current year due to revaluation at acquisition* | | |
| 6 | Deferred tax | 21 750 | |
| | Taxation | | 21 750 |
| | *Deferred tax in current year on additional depreciation due to revaluation* | | |
| | *Current year – sale of plant* | | |
| 7 | Accumulated depreciation - Plant | 225 000 | |
| | Plant | | 225 000 |
| | *Reversing additional depreciation as asset sold (150 000 + 75 000)* | | |
| 8 | Profit before tax | 75 000 | |
| | Plant | | 75 000 |
| | *Group adjustment to profit on sale of plant* | | |
| 9 | Deferred tax | 21 750 | |
| | Taxation | | 21 750 |
| | *Deferred tax on group adjustment to profit on sale of plant* | | |
| 10 | Investment in Salt Limited | 35 000 | |
| | Profit before tax | | 35 000 |
| | *Reversing parent impairment of investment* | | |
| | *Current year – inter-company transactions* | | |
| 11 | Profit before tax | 110 000 | |
| | Dividend paid | | 110 000 |
| | *Eliminating inter-company dividend* | | |
| 12 | Interest received | 65 000 | |
| | Profit before tax | | 65 000 |
| | *Eliminating inter-company interest* | | |
| 13 | Loan from Pepper Limited | 500 000 | |
| | Loan to Smooth Limited | | 500 000 |
| | *Eliminating inter-company loan* | | |

(Note that there is no journal entry eliminating the C460 000 accumulated depreciation on the plant at acquisition, as the plant is now sold).

## Solution 30.7 continued …

### c) Extracts from consolidated statement of financial position

**PEANUT LIMITED AND ITS SUBSIDIARY COMPANIES**
**EXTRACTS FROM THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AT 30 JUNE 20X7**

| | | C |
|---|---|---|
| ***EQUITY AND LIABILITIES*** | | |
| **Equity** | | |
| Share capital | | 1 000 000 |
| Non-distributable reserve | (1 400 000 + 1 500 000 – 550 000) | 2 350 000 |
| **Non-current liabilities** | | |
| Long term loan | (1 500 000 + 900 000) | 2 400 000 |
| **Current liabilities** | | |
| Accounts payable | (182 500 + 190 000 +167 900) | 540 400 |

### Workings

| **Plant** | **Salt Ltd** | **Consolidation adjustment** | **Group** |
|---|---|---|---|
| Cost 1/7/X3 | 2 300 000 | | |
| Depreciation to 30/6/X4 | (460 000) | | |
| At acquisition | 1 840 000 | 300 000 | 2 140 000 |
| Depreciation 30/6/X5 | (460 000) | (75 000) | (535 000) |
| Depreciation 30/6/X6 | (460 000) | (75 000) | (535 000) |
| | 920 000 | 150 000 | 1 070 000 |
| Depreciation 30/6/X7 | (460 000) | (75 000) | (535 000) |
| CA at date of sale | 460 000 | 75 000 | 535 000 |

| | **Salt Ltd** | **Group** |
|---|---|---|
| Selling price | 500 000 | 500 000 |
| Carrying amount | 460 000 | 535 000 |
| Profit/ (loss) | 40 000 | (35 000) |

## Solution 30.7 continued …

| Analysis of equity at 30 June 20X7 | Salt Ltd | Smooth Ltd |
|---|---|---|
| **1. At acquisition:** | **1 July 20X3** | **1July 20X4** |
| Share capital | 1 000 000 | 500 000 |
| Retained earnings | 550 000 | 1 650 000 |
| Non-distributable reserve | 0 | 550 000 |
| Plant | 300 000 | 0 |
| Deferred tax | (87 000) | 0 |
| | 1 763 000 | 2 700 000 |
| Fair value of consideration | 1 763 000 | 2 795 000 |
| Goodwill | 0 | 95 000 |
| | | |
| **2. Beginning of year:** | | |
| NDR 1 July 20X6 | 0 | 1 500 000 |
| - on acquisition | 0 | (550 000) |
| | 0 | 950 000 |
| | | |
| Retained earnings 1 July 20X6 | 930 000 | 4 400 000 |
| - on acquisition | (550 000) | (1 650 000) |
| | 380 000 | 2 750 000 |
| Additional depreciation | (150 000) | 0 |
| Deferred tax | 43 500 | 0 |
| | 273 500 | 2 750 000 |
| | | |
| **3. Current year:** | | |
| | | |
| Profit before tax | 197 350 | 2 985 900 |
| - taxation | (57 232) | (865 911) |
| - additional depreciation | (75 000) | |
| + Deferred tax | 21 750 | 0 |
| - group adjustment on sale of plant | (75 000) | 0 |
| + Deferred tax | 21 750 | 0 |
| | 33 618 | 2 119 989 |
| | | |
| Dividends | 10 000 | 100 000 |

## Solution 30.8

### a) Pro-forma consolidating journal entries for the year ended 30/12/X4

| | *Debit* | *Credit* |
|---|---|---|
| Ordinary share capital | 200 000 | |
| Retained earnings | 80 000 | |
| Non-distributable reserve | 36 000 | |
| Investment in Salt Limited | | 342 500 |
| Goodwill | 26 500 | |
| | | |
| Investment in Salt Limited | 7 500 | |
| Retained earnings | | 7 500 |
| | | |
| Profit before taxation (Dividend income) | 40 000 | |
| Dividend declared | | 40 000 |
| | | |
| Dividend payable | 40 000 | |
| Dividend receivable | | 40 000 |
| | | |
| Loan from Pepper Limited | 50 000 | |
| Loan to Salt Limited | | 50 000 |
| | | |
| Profit before tax (Interest income) | 2 250 | |
| Profit before tax (Interest expense) | | 2 250 |

### c) Consolidated SOCIE

***CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***
***FOR THE YEAR ENDED 31 DECEMBER 20X4***

| | | **Ordinary share capital C** | **NDR C** | **Retained earnings C** | **Total C** |
|---|---|---|---|---|---|
| 01/01/X4 | Balance | `450 000 | - | ^112 500 | 562 500 |
| | Total comprehensive income | | | *109 500 | 109 500 |
| | Revaluation of land | | #7 200 | | 7 200 |
| | Dividend | | | ~(50 000) | (50 000) |
| 31/12/X4 | | 450 000 | 7 200 | 172 000 | 629 200 |

` (450 000 + 200 000 – 200 000)
^ (112 500 + 72 500 – 80 000 + 7 500)
* (132 142 – 40 000 + 64 285 – 27 642 – 19 285)
# (10 000 X 0.72)
~ (50 000 + 40 000 – 40 000)

## Solution 30.8 continued . . .

### d) Extract from consolidated statement of financial position

| *CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 20X4* | | |
|---|---|---|
| | | **C** |
| ***ASSETS*** | | |
| **Non-current assets** | | 275 000 |
| Goodwill | | 26 500 |
| Land | | 150 000 |
| Plant and equipment | | 105 000 |
| **Current assets** | | |
| Accounts receivable | (64 000 + 42 000) | 106 000 |
| Cash | | 318 000 |

### Workings

**Analysis of equity of Salt Limited at 31 December 20X4**

| | | | |
|---|---|---|---|
| **At acquisition** | | | |
| Ordinary share capital | | 200 000 | |
| Retained earnings | | 80 000 | |
| NDR | (50 000 X 0.72) | 36 000 | |
| | | 316 000 | |
| Fair value of consideration | | 342 500 | |
| Goodwill | | 26 500 | |
| **Beginning of year** | | | |
| Retained earnings / NDR at 01/01/X4 | | 72 500 | 36 000 |
| Retained earnings / NDR at acquisition | | 80 000 | 36 000 |
| | | (7 500) | 0 |

**Analysis of retained earnings of Salt Limited (not needed for solution)**

| | | *Total* | *Before* | *Since* |
|---|---|---|---|---|
| 01/01/X3 | At acquisition | 80 000 | 80 000 | - |
| 31/12/X3 | Profit | 32 500 | | 32 500 |
| | Dividend | (40 000) | (7 500) | (32 500) |
| | | 72 500 | 72 500 | - |
| 31/12/X4 | Profit | 45 000 | | 45 000 |
| | Dividend | (40 000) | | (40 000) |
| | | 77 500 | 72 500 | 5 000 |